

Umbrella Bond Program – Cost estimates

Because some of the costs involved in obtaining a tax-exempt bond are fixed (as opposed to a percentage of the bond amount), the larger the amount borrowed, the more cost-effective the project.

Although there is no legal minimum to the size of the bond issue, the relatively large up-front costs for extremely small projects may outweigh the benefits of the low tax-exempt interest rates.

VSBAFA representatives are available to assist potential borrowers with this cost/benefit analysis and evaluation.

Estimated One-Time Closing Costs¹

VSBAFA Program Fee	.25%
Bond Counsel	
<u>Transaction Amount</u>	<u>Bond Counsel Fees</u>
Less than \$1,000,000	\$15,000 + \$1,500 expenses
Between \$1,000,000 and \$2,000,000	\$17,500 + \$1,500 expenses
Over \$2,000,000	\$20,000 + \$1,500 expenses
FUNB Counsel Fee	
<u>Transaction Amount</u>	<u>First Union Counsel Fees</u>
Less than \$1,000,000	\$10,000 + \$500 out-of-pocket expenses
Between \$1,000,000 and \$2,000,000	\$12,500 + \$500 out-of-pocket expenses
Over \$2,000,000	\$15,000 + \$500 out-of-pocket expenses
Underwriter (Placement Fee)	\$10,000 or .60%, whichever is greater
Trustee Fee	\$500

Example¹

<u>\$1 Million Project</u>	
Program Fee	\$2,500
Bond Counsel	\$19,000
FUNB Counsel	\$13,000
Underwriter	\$10,000
Trustee	\$500
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	\$45,000.00 (4.5%)*

Note*: A maximum of 2% of the total bond amount may be applied to "issuance" costs. An additional 3% may be applied to "credit enhancement" costs, i.e., the up-front fees of the standby letter of credit bank.

¹ Does not include borrower's counsel and any up-front costs charged by the standby letter of credit bank and its counsel.

Estimated Annual Costs

Bond Rate	4.21% ¹
VSBA Annual Fee	.125%
Standby Letter of Credit	1.50% ²
Master Letter of Credit	.30% - .45%
Remarketing Agent	.125%
Trustee	\$2,700

Example

\$1 Million Project

Bond Rate	4.21%
VSBA Annual Fee	.125%
Standby Letter of Credit Fee	1.50% ²
Master Letter of Credit Fee	.35%
Remarketing Agent	.125%
Trustee	.27%
Effective Annual Rate	<u>6.58%³</u>

¹ The interest rate on variable tax-exempt bonds has historically averaged 45% of the Prime rate. 4.32% was the actual average interest rate earned on VSBA's umbrella bonds during 2000.

² This is an estimate. Standby letter of credit fees are negotiated between the borrower and the bank.

³ This compares to the average Prime rate of 9.21% for 2000.